Trust Company of Illinois

HOW TO SELECT YOUR RETIREMENT PLAN INVESTMENTS

Simplifying the Choice Architecture

Have you been to a grocery store lately? Did you happen to notice the vast array of shampoo? There's one for every type of perceived hair problem. Of course there are those for frizzy ends or thin, limp hair. Oily hair, flaky scalp, or dandruff. Some are organic. Some are for kids. Some are for after swimming. Some even have caffeine in them to wake up your hair. No joke. And they range in price from 99 cents to more than 30 dollars for a bottle.

We face buying decisions on a daily basis. Some trivial, some major. When given dozens of choices, how does one make a smart selection without messing up, and without suffering analysis paralysis or buyer's remorse?

One such buying decision – a very important one – occurs when you are presented the investment options in your 401(k) or other type of retirement plan or account. Unless you are a savvy investor, if you don't have a competent advisor to help you with the decision, how should you make a good one?

When facing it alone, it's not hard to end up with more questions than answers. Should you go with equity? Or bonds? Large cap, mid cap or small cap stocks? International? Emerging markets? What's the difference between foreign and global stock? Are index funds better than actively managed funds? You may even ask, what is a mutual fund exactly anyway, and how much do they charge me? These and many more are all perfectly normal questions.

So, when given an investment election form that has 20, 30 or even 50 investment options, how do you decide?

Simple answer: talk to a financial advisor. Or talk to us. All it may take is a couple minutes for you to complete a risk tolerance questionnaire (find one at www.tcwealthpartners.com/retirementplans/latest) and then use that information and your age to select among one of the four Guided Portfolios intended for investors like you.

For our retirement plan clients, we have designed a simple investment choice architecture. The vast majority of plan participants fall into one of three groups:

1. Informed Investor: You have a solid understanding of the plan's various investment alternatives, and you know your risk tolerance and appropriate asset allocation. You may have received the help of a financial advisor. Whether the plan has 20 or 40 choices, you are not overwhelmed.

You are capable of building your own investment portfolio from all available investment options. In our experience, a small percentage of plan participants fall into this category. For you, we have constructed a very well-rounded lineup of top-notch Mutual Funds covering the spectrum of investment strategies that are typically employed in a long-term investor's portfolio. This includes both passive index funds as well as actively managed funds. You expect this range of market coverage and choice.

2. Semi-informed Investor: You have a general idea of your risk tolerance, so you understand whether you should invest conservatively or aggressively or somewhere in between. You are at least willing to answer a risk-tolerance questionnaire. But you are not comfortable determining an appropriate asset allocation or selecting individual investment funds. Most of our clients' plan participants are in this group.

Your best approach is to select from one of the four Guided Portfolios provided by the Trust Company rather than from the lineup of stand-alone mutual funds. These four professionally managed portfolios are called: **Conservative, Balanced, Growth** and **Stock Focused.** The Stock Focused portfolio is the most aggressive and will likely experience the widest range of investment returns but it should earn the highest return over the long term.

Most young investors would be well-situated in an aggressive portfolio for their retirement account. Retired investors, on the other hand, are typically better suited by a conservative portfolio. All four guided portfolios are globally diversified, managed by our investment team under the direction of the Trust Company Investment Committee. For more information, visit www.tcwealthpartners.com/guidedportfolios.

3. Uninformed Investor: When it comes to investing you are totally hands-off and would need help understanding your risk tolerance and asset allocation. You can select an age-appropriate Target Date Fund if your plan provides TDFs. TDFs are designed to gradually adjust the level of risk from a more aggressive portfolio to more conservative as you near the assumed retirement age of 65. For example, if you were born in 1980, the 2045 Target Retirement Fund would generally be appropriate. You should not attempt to create your own portfolio from the mutual fund lineup, nor should you choose a risk-based portfolio if you don't know how aggressively to invest. A fair lot of participants fall in this category.

We would prefer that our clients' plan participants at least take the time to understand risk tolerance and to at least feel comfortable selecting a Guided Portfolio. That's why we provide them. There are no additional fees for the GPs; in fact, the expenses of the underlying investments in the GPs are relatively low. We understand that most participants will never feel comfortable building their own portfolio using the stand-alone funds, and most will not work with a financial advisor. We believe the Guided Portfolios will help them successfully build and maintain a retirement nest egg. We will sleep better the more we are able to help participants move from group three to group two.

So please do not worry if you look at the plan's lineup of mutual funds – whether there are 12 options or 42 – and feel initially confused or overwhelmed. Instead, we urge you to either ask for help or simply consider your risk tolerance and age so you can choose a professionally managed guided portfolio, or at least a target date fund.

For the vast majority of plan participants, we are more worried about whether you are taking care of the things you can control such as saving early in one's career, saving enough, contributing on a Roth basis when appropriate, not spending too much, updating beneficiary forms and estate planning documents, and eventually working with a financial planner to map out the future. We are more than happy to help you with these concerns, as well.